

FOREIGN POLICY REPORTS

November 1, 1940

Defense Economy of the United States Problems of Mobilization

BY J. C. deWILDE and GEORGE MONSON

PUBLISHED TWICE A MONTH BY THE

Foreign Policy Association, Incorporated

MIDSTON HOUSE, 22 EAST 38th STREET, NEW YORK, N. Y.

VOLUME XVI NUMBER 16 25¢ a copy \$5.00 a year

Defense Economy of the United States: Problems of Mobilization

By J. C. deWILDE and GEORGE MONSON¹

This report is the first in a series of studies on the economic aspects of national defense. Subsequent issues of Foreign Policy Reports will deal with raw material supplies, industrial capacity, labor, power and transportation.

FOR the first time since 1918 the United States is engaged in a great effort to mobilize our national resources for war. Congress has appropriated nearly 13 billion dollars in cash and contract authorizations to meet our defense requirements during the current fiscal year. The expenditure of this unprecedented peace-time outlay calls for planning and foresight. The introduction of military conscription and maintenance of reserves involves the procurement of equipment for at least two million men. Dollars must be translated into planes, tanks, guns, rifles, blankets, shoes and uniforms; and these in turn into industrial plants, labor and materials. But beyond the problem of satisfying the immediate needs of our defense program lies the more formidable task of preparing this country against the day when we may actually be at war. While this day may be postponed indefinitely, or altogether avoided, revolutionary developments in Europe and the Far East compel us to reckon with the possibility, if not the probability, of direct involvement.

The military successes scored by Nazi Germany have dramatically emphasized the vital importance of making adequate and timely economic preparations for war. More than any other country, Germany acted on the thesis that war is a clash of machines. Its rulers knew that capacity to produce was the key to victory. Long in advance of the outbreak of hostilities they developed a *Wehrwirtschaft*, or military economy, which organized the country's resources, industry and man power for the dominant objective of turning out war material on a vast scale. When war actually broke out Germany had not only piled up a large armament, but had its plants tooled to replace and increase this equipment and material at a rapid pace. France and Britain, on the other hand, were only just gearing their economy for defense. Their in-

complete understanding of the implications of total war and failure to concentrate on armament production were the principal reasons for their inability to cope with the motorized and mechanized warfare of the Germans.² The United States can still benefit by the experience of Britain and France.

THE PROBLEM OF BOTTLENECKS

The layman may wonder how a country as wealthy as the United States can have difficult problems of supply and procurement which necessitate advance economic mobilization for war. As an industrial nation the United States outranks all others in the world. Since the last war we have made tremendous strides in diversifying and extending our industrial development. American farms produce a surplus of food. Only the Soviet Union can rival us in the extraordinary diversity and quantity of available raw materials. In addition, we have at our present rate of economic activity considerable unused capacity in the form of idle men and idle capital. Undoubtedly our over-all capacity to produce is extremely large; and this very factor may enable us to prepare for war with measures less sweeping than those required in nations not so well endowed. Nevertheless, economic mobilization for war creates many problems which demand government intervention for their solution.

First of all, the United States, despite its great natural wealth, is not completely self-sufficient in all raw materials. Although our deficiencies are relatively few, some of them could become very critical. Without manganese, for example, we could produce no steel. Second, production for war is vastly different from production for peace. The transition is particularly difficult for a country like the United States which has never had a large munitions industry in peace time. The government is compelled to build many plants

2. Cf. J. C. deWilde, "Germany's Wartime Economy," *Foreign Policy Reports*, June 15, 1940; and J. C. deWilde and D. H. Popper, "Wartime Economy of Britain and France," *ibid.*, July 15, 1940; also J. F. Kennedy, *Why England Slept* (New York, Wilfred Funk, 1940), *passim*, especially chapters IV and V.

1. Mr. Monson is a consulting economist.

FOREIGN POLICY REPORTS, VOLUME XVI, NUMBER 16, NOVEMBER 1, 1940

Published twice a month by the FOREIGN POLICY ASSOCIATION, Incorporated, 22 East 38th Street, New York, N. Y., U.S.A. FRANK ROSS MCCOY, *President*; WILLIAM T. STONE, *Vice President and Washington representative*; VERA MICHELES DEAN, *Editor and Research Director*; HELEN TERRY, *Assistant Editor*. *Research Associates*: T. A. BISSON, A. RANDLE ELLIOTT, LOUIS E. FRECHTLING, JAMES FREDERICK GREEN, HELEN H. MOORHEAD, DAVID H. POPPER, ONA K. D. RINGWOOD, JOHN C. DEWILDE. Subscription Rates: \$5.00 a year; to F.P.A. members \$3.00; single copies 25 cents. Entered as second-class matter on March 31, 1931 at the post office at New York, N. Y., under the Act of March 3, 1879.

Produced under union conditions and composed, printed and bound by union labor.

for the production of military matériel which has no commercial application or equivalent. Private industry must also be assisted on a large scale to adapt its production methods to the manufacture of goods for war. Last, but not least, military preparations necessarily place a disproportionately heavy burden on certain segments of our economy, particularly the heavy industries, and make extraordinary demands on our ability to supply certain, but not all, raw materials. It is thus entirely possible for serious bottlenecks to develop in spite of a general excess capacity. An acute shortage of skilled labor may develop in the face of widespread unemployment. We may have a country-wide surplus of electric generating capacity, yet a critical situation in power supply in certain overburdened industrial districts. Our industrial structure is such a complicated maze of interwoven relations that a strain at any point is transmitted all along the line. A shortage of machine tools, for example, would handicap the production of virtually all war goods. Similarly, inadequate transportation facilities could hold up production and distribution everywhere.

THE DEFENSE COMMISSION

This country entered the first stage of economic mobilization with the appointment on May 28, 1940 of the Advisory Commission to the Council of National Defense. In selecting this body the President acted under a statute of 1916, and utilized as a prototype a similar commission created that year by President Wilson.³ The members of the Commission and their respective fields of jurisdiction are:

Edward R. Stettinius, Jr., chairman of the board of the United States Steel Corporation: Raw materials.

William S. Knudsen, president of General Motors Corporation: Manufacture of supplies and equipment for the Army and Navy.

Sidney Hillman, president of the Amalgamated Clothing Workers of America: Labor problems.

Ralph Budd, chairman of the board of the Chicago, Burlington & Quincy Railroad: Transportation.

Leon Henderson, member of the Securities and Exchange Commission: Prices and priorities.

Chester C. Davis, member of the Federal Reserve Board and former Agricultural Adjustment Administrator: Agriculture.

Harriet Elliott, Dean of Women at the University of North Carolina: Consumer problems.

Subsequently, the Commission established a Bureau of Research and Statistics, a Division of

State and Local Cooperation, and a Priorities Board. A Coordinator of Defense Purchases, who later became the Administrator of Priorities, and a Coordinator of Defense Housing were also added. The Commissioners, who serve without compensation and have severed their business connections, have recruited a large staff from the ranks of experienced industrialists and experts, as well as from existing government departments and bureaus.

In theory, the Commission acts in an advisory capacity to the Council of National Defense, consisting of the Secretaries of War, Navy, Agriculture, Interior, Commerce and Labor. In practice, however, all the work is done by the Commission, the Council having no real existence except as part of the Presidential Cabinet. The Commission itself has no executive or administrative power. It does not let contracts, build plants or lend money for national defense purposes. The Commission simply tries to coordinate the activities of the Army, Navy and other governmental agencies which deal with the economic aspects of national defense, and to enlist the active and voluntary cooperation of agriculture, industry and labor in supplying the armed forces. Its primary responsibility "is to find out what the Army and Navy need, and advise them where and how to get it."⁴ The regular defense departments must first work out the designs, specifications and quantities of all the material they want. The Commission's experts keep a close and continuous watch over developments in each vital defense industry, so that proper measures may be taken to anticipate any bottleneck in production capacity. They try to estimate as far as possible the demands which the current defense program will make on the available industrial plant, supplies of raw materials, labor, power resources, and transportation facilities. The Commission also examines the extent to which these requirements are likely to expand in the event of war and, on the basis of this necessarily approximate knowledge, devises the measures which can now be taken to facilitate the solution of problems of supply and procurement in such a contingency.

In all this work the Commission is not breaking new ground. Ever since the first World War the War Department has been making a continuous study of procurement and industrial mobilization. It has followed closely the supply situation of this country with respect to strategic materials. It has kept an inventory of the industrial facilities available for the production of munitions, and provisionally allocated to every plant on its

3. Cf. H. J. Tobin and P. W. Bidwell, *Mobilizing Civilian America* (New York, Council on Foreign Relations, 1940).

4. Cf. remarks of W. A. Harriman of the National Defense Advisory Commission before the National Petroleum Association Convention. *Press Release 107*, September 18, 1940.

list the manufacture of one or more of the thousands of items needed in time of war. In addition to drawing on this storehouse of information, the Commission brings to its task a more intimate and practical knowledge of industry than the Army, and serves as a valuable liaison agent between government and business.

Although the Commission can in no case make or enforce decisions, this does not mean that it is devoid of real power. The authority of its personnel gives weight to its recommendations. The President, who in the last analysis is the "boss" of the Commission, can use his powers as head of the government and Commander-in-Chief of the Army and Navy to overcome resistance to its proposals. Lacking the President's support, the Commission would be doomed to futility.

PRODUCTION FOR DEFENSE

With the assistance of the Commission the government has made notable progress in getting its defense program under way. More than two-thirds of the contracts for supplies and equipment in the current fiscal year have been placed, and important steps have been taken both to facilitate the private manufacture of armament and to expand the government's own facilities for production.

Although the War and Navy Departments have actually awarded all contracts, Mr. Knudsen's division of the Defense Commission has been given the right to pass on, or "clear," all those over \$500,000. The object of this system is not only to insure that the work is properly distributed and done by responsible firms, but also to reconcile any conflicts between the munitions requirements of Great Britain and the United States. By the end of September the Commission had given clearance to contracts totaling more than 8 billion dollars, and expected to see the balance placed before December.⁵

The development of new purchase policies has expedited the placing of orders. The Army has announced its intention of taking delivery of supplies at the manufacturing plant, thus putting all sections of the country on a footing of equality and permitting a more even geographic distribution of defense work. Split bidding has also been permitted, so that the government may utilize the production capacity of the smaller manufacturers to a much larger extent. Most important of all, Congress has authorized the defense departments to dispense with the time-honored practice of letting contracts after competitive bidding and to

negotiate orders directly with manufacturers on a lump sum or cost-plus-a-fixed-fee basis. The government is therefore no longer compelled to consider only cost and prices in getting its work done, but can pay more attention to speed and quality of performance, and distribute orders in such a way as to insure maximum employment of the capacity available for production.⁶ While most of the work will continue to be awarded on the old competitive bidding basis, negotiated contracts are expected to assume growing importance.

Awarding contracts represents only the first phase in the process of procurement. The next, and longest, consists of preparation for production. Engineering brains must be applied to the problems of manufacture. Shop drawings must be made, machine tools and fixtures ordered and installed, and raw materials purchased. Frequently additional plants have to be erected or old ones extended. Delicate problems of financing and amortization require solution. Actual production on many items of equipment not hitherto manufactured on a large scale cannot get under way until the late spring or summer of 1941.

The Defense Commission has helped the Army and Navy to mobilize private manufacturing facilities for defense work. Thus Ford, Studebaker, Packard and General Motors have been enlisted to produce airplane engines; and the airplane industry proper has been assisted in adopting methods of large-scale production. Likewise, Chrysler and a number of railway equipment concerns have been persuaded to manufacture tanks. The Commission has paid particular attention to the problem of amortization, because manufacturers have naturally been reluctant to make large investments for production of arms without some assurance that they would recoup their costs. After prolonged controversy in Congress and the press, the Commission finally succeeded in having more liberal amortization provisions incorporated in the excess profits tax bill which became law on October 8, 1940. In addition, the Commission has worked out an emergency plant facilities contract, by which the government will reimburse private manufacturers for the cost of the necessary plant and equipment, and take title to the property at the end of five years.⁷

Congress has thought it necessary to endow the executive arm of the government with certain powers of compulsion in its relations with private enterprise. The most sweeping power of

5. Cf. radio speech of William S. Knudsen, delivered on October 10, 1940. National Defense Advisory Commission, *Press Release* 158.

6. Cf. address of October 3, 1940 by H. F. Taggart, Consultant on Cost Accounting with the Price Stabilization Division of the National Defense Advisory Commission. *Press Release* 139.

7. *Ibid.*; cf. also speech of William S. Knudsen before the Army Ordnance Association, *Press Release* 150, October 8, 1940.

this kind is conferred by Section 9 of the Selective Training and Service Act of September 16, 1940. Under this section the President can, through the heads of the War and Navy Departments, enforce compliance with any order placed for national defense and require that such orders be given precedence over all others. In case of refusal to manufacture the needed material at a reasonable price, or to obey instructions regarding priority, the President or the Secretaries of War and Navy are authorized to take over the plant of the recalcitrant manufacturer against "fair and just" compensation.⁸ In order to reassure industry that these powers will not be abused, the President has issued instructions that no action should be taken without the advice and recommendation of the National Defense Advisory Commission.⁹

The government also has sweeping authority to build and operate its own facilities for the production of war material. Under the present program, elaborated with the cooperation of the Defense Commission, construction of government-owned plants is being confined to munitions factories which would have no commercial value after the emergency. Moreover, private industry will build and operate them on a fixed-fee basis. Experts of the Commission have been advising the War Department on the location of such plants, helping it to reconcile the strategic and economic factors involved. Up to the beginning of October 1940 eleven of these factories had been definitely located—two each for the production of powder, high explosives and ammonia, and five for the loading of shells. Five more were projected at that time.¹⁰

One of the most important of the Defense Commission's activities lies in the field of labor. The division under Sidney Hillman is making a continuous study of the labor supply in relation to current and future requirements. At its suggestion, the U. S. Employment Service has carried out an inventory of the available skills among the 5,700,000 workers registered with its local offices. The task of making a similar survey of the employed has met with greater difficulty, although a number of unions are cooperating. Nor is there as yet any definite knowledge about the direct and indirect labor requirements of the national defense program. The division studies every Army and Navy contract in an effort to discover approximately the number of workers and type

of skills that will be needed in each locality to carry out the work. In addition, the Army and Navy keep the division informed of the demand for labor in their own arsenals and naval yards. To furnish additional defense workers the division enlisted the country's vocational schools in a short-term training program. A more thoroughgoing scheme providing for training in factories was launched under the direction of experts obtained from several big corporations.¹¹ At the same time, the division has insisted on the maintenance of such labor standards and wage-and-hour provisions as were incorporated in the Walsh-Healy Act, the Fair Labor Standards Law, the National Labor Relations Act, etc. The whole Commission has adopted a declaration of policy affirming this principle.¹²⁻¹³

INSURING RAW MATERIAL SUPPLIES

In the field of raw material procurement, the government's efforts have developed along three related lines: 1. institution of controls over export trade; 2. accumulation of stock piles of certain materials; and 3. exploration of domestic sources of supply and stimulation of home production. In many cases the Defense Commission actively cooperates in carrying out these policies.

Until July 5, 1940 there were no important restrictions on the exportation of raw materials. The Neutrality Resolution of August 31, 1935 set up a National Munitions Control Board to supervise the export of munitions and forbade shipments of "arms, ammunition and implements of warfare" except under a license granted by the State Department, but it applied only to finished articles.¹⁴ An Act of February 15, 1936 also forbade shipments of tin plate scrap unless permitted by the President, who subsequently delegated his licensing power to the Secretary of State as chairman of the National Munitions Control Board.¹⁵ Another law, approved September 1, 1937, applied licensing to exports of helium, of which the United States has a virtual monopoly.¹⁶ These were the only exceptions to the Administration's general policy of discouraging restrictions on foreign trade.

A drastic change came with the enactment on July 2, 1940 of a law "to expedite the strengthening of the national defense."¹⁷ It authorized the

8. Public No. 783, 76th Congress, 3rd Session.

9. Cf. text of his letter to the Secretaries of War and Navy, *ibid.*, September 28, 1940.

10. Cf. Knudsen's speech before the Army Ordnance Association, cited.

11. Cf. speech by Sidney Hillman before the U.S. Conference of Mayors on September 21, 1940. *Press Release* 114.

12-13. National Defense Advisory Commission, *Press Release* 87, September 1, 1940.

14. Cf. R. L. Buell, "The New American Neutrality," *Foreign Policy Reports*, January 15, 1936, p. 279.

15. Cf. Executive Order No. 7297. Department of State, *Press Releases*, February 22, 1936, p. 166.

16. Public No. 411, 75th Congress, 1st Session.

17. Public No. 703, 76th Congress, 3rd Session.

President until June 30, 1942 to prohibit or curtail by proclamation the exportation "of any military equipment or munitions, or component parts thereof, or machinery, or material or supplies necessary for the manufacture, servicing or operation thereof," except under such rules and regulations as he might prescribe. Under this Act, which confers sweeping powers to control shipments of all goods needed for national defense, the President has subjected exports of the following articles to license:¹⁸

1. Arms, ammunition and implements of war as defined in the President's Proclamation of May 1, 1937.

2. The following basic materials and products containing such materials:¹⁹ aluminum, antimony, chromium, manganese, magnesium, mercury, molybdenum, platinum group of metals, tin, tungsten, vanadium, asbestos, graphite, industrial diamonds, mica, quartz crystals, cotton linters, flax, wool, manila fiber, silk, hides, rubber, quinine, toluol, optical glasses, aviation motor fuel (Aug. 1); aviation lubricating oil (Aug. 1), tetraethyl lead (Aug. 1), No. 1 heavy smelting iron and steel scrap (Aug. 1), and other grades of iron and steel scrap (Oct. 16).

3. The following chemicals: ammonia and ammonia compounds, chlorine, dimethylaniline, diphenylamine, nitric acid, nitrates, nitrocellulose with nitrogen content of less than 12 per cent, soda lime, anhydrous sodium acetate, strontium chemicals, and fuming sulphuric acid.

4. The following manufactured products: aircraft parts, equipment and accessories; armor plate; non-shatterable or bullet-proof glass; optically clear plastics; optical elements for fire control instruments, aircraft instruments, etc.; and fire-control instruments, military searchlights, aerial cameras and other types of military equipment containing optical elements (Oct. 15).

5. Metal-working machinery for (a) melting or casting, (b) pressing into forms, (c) cutting or grinding, and (d) welding.²⁰

6. The following types of equipment and plans: equipment that can be used or adapted for production of aviation motor fuel and tetraethyl lead; plans, specifications or other documents containing descriptive or technical information of any kind on the design or construction of aircraft or aircraft engines, and on the design, construction and operation of equipment for the manufacture of aviation fuel. (Sept. 13)

Licenses for shipments of these articles can be granted by the Secretary of State in accordance with

18. Proclamations of July 2 and 26, September 13, 26, 30, 1940. Department of State, *Press Releases*. Licensing became effective on July 5, 1940 except where otherwise indicated on the list.

19. With few exceptions, fabricated articles made from these materials, or articles ready for ultimate consumption, were excepted from the licensing requirement.

20. This broad category, including machine tools, was subsequently narrowed to exclude those types of metal-working machinery not essential for defense.

directives issued by the Administrator of Export Control, Col. R. L. Maxwell. Licensing is designed only to restrict and not wholly to prohibit exports. Up to the present the President has imposed embargoes in only a few cases. On July 31, 1940 he forbade exports of aviation gasoline except to countries in the Western Hemisphere; and on September 26 he embargoed shipments (effective October 16) of all grades of iron and steel scrap, this time excepting not only the Western Hemisphere, but also Great Britain.

STOCKPILING

Until a few years ago there was no legislation authorizing the government to acquire stockpiles of raw materials in which the United States is deficient. For the fiscal years 1938 and 1939 the Navy Department received a total appropriation of \$4,000,000 for this purpose, but the sum was obviously inadequate even for the limited needs of the Navy.²¹ The Strategic Minerals Act of June 7, 1939²² authorized the appropriation of \$100,000,000 over a four-year period to purchase reserve stocks.²³ For the first year only \$10,000,000 was actually made available, but for the fiscal year 1941 appropriations have been increased to \$60,000,000. Under the Act strategic and critical raw materials are bought by the Procurement Division of the Treasury in accordance with recommendations and specifications drawn up by the Army and Navy Munitions Board. The Treasury has so far purchased small stocks of tungsten, chrome ore, manganese ore, pig tin, quartz crystals, optical glass, manila fiber and quinine sulphate.²⁴ Independent of these purchases, the United States concluded a barter deal with the British government on June 23, 1939 whereby it acquired 85,000 tons of rubber in exchange for 600,000 bales of American cotton.

A much broader program was launched on June 25, 1940 when the President approved legislation empowering the Reconstruction Finance Corporation (1) to purchase the capital stock of, or make

21. By March 1939 the Navy Department had used \$3,943,389.18 to store or order 1,500 short tons of manila fiber, 2,190 short tons of tin, 425,566 square yards of cartridge-bag silk, 98,552 yards of parachute flare silk, 11,500 tons of ferromanganese, and approximately 12,000 pounds of optical glass. Cf. *Hearings before the Committee on Military Affairs, House of Representatives, 76th Congress, 1st Session, on H.R. 2969, 3320, 2556, 2643, 1987, 987 and 4373*, p. 192.

22. *Public No. 117, 76th Congress, 1st Session.*

23. The Act provided that purchases must be made in accordance with the Buy-American Act of 1933 which required buying in the United States unless materials of a satisfactory quality were not available in sufficient quantities or at a reasonable price. This limitation was abolished by the First Supplemental National Defense Appropriation Act of June 26, 1940.

24. *Mining Congress Journal*, August 1940, p. 40.

loans to, any corporation for the purpose of producing, acquiring and carrying strategic and critical raw materials, and (2) to set up corporations for the same object.²⁵ To carry out this Act the RFC on June 28 created the Rubber Reserve Company and the Metals Reserve Company, each with a capital of \$5,000,000.²⁶ The RFC further authorized two loans aggregating \$140,000,000 to the Rubber Reserve Company, and one loan of \$100,000,000 to the Metal Reserves Company. The latter is buying considerable quantities of manganese and tin, as well as antimony, chrome and tungsten.²⁷ On August 20 the Federal Loan Administrator also announced the organization of a Defense Supplies Corporation, likewise capitalized at \$5,000,000 and endowed with a fund of \$50,000,000 to buy and store high octane aviation gasoline for the Army and Navy.²⁸ There is no limit to the amount of money that can be made available to these corporations other than that inherent in the extensive borrowing capacity of the RFC.²⁹

EXPLORATION OF DOMESTIC SOURCES OF SUPPLY

One object of the stockpiling program is to give the United States sufficient time, in case of war, to develop domestic sources of those materials home production of which is at present inadequate. This applies to the production of substitutes such as synthetic rubber, but especially to minerals. In other words, domestic supplies are our second line of defense. This country has considerable submarginal deposits of manganese, antimony, chrome, mercury, etc., which, however, cannot under normal circumstances be exploited on a commercial basis. If the government subsidized domestic producers directly or indirectly, the peace-time output might in some cases be raised substantially, but only at high cost and at the risk of exhausting deposits before the war emergency has arisen. On the other hand, failure to keep domestic production going on a modest scale or to conduct exploratory work might make it almost impossible to step up output within a relatively short time, if and when foreign supplies are cut off or seriously curtailed.

Under the circumstances, the government has pursued a middle-of-the-road policy. On the whole,

it has discouraged tariff protection for producers of raw materials, but it has bought some domestic minerals for stockpiles. At the same time, the U. S. Geological Survey and the Bureau of Mines have for many years investigated the occurrence and development of mineral deposits. The scope of these investigations was considerably broadened by the Strategic Minerals Act, which directed the two agencies to pay particular attention to the "preparation, treatment, and utilization of ores and other mineral substances" found in the United States or its territories or insular possessions "and to devise new methods for treatment and utilization of lower grade reserves and to develop substitutes for such essential ores and mineral products. . . ." The object of the program now being carried out is not to find additional commercial deposits, but to gather complete data on those which cannot now be worked so as to make them immediately available in time of emergency.³⁰ Private producers who want to utilize the results of these investigations can obtain help from the government under a law of September 16, 1940 which authorized the RFC to make loans up to a total of \$10,000,000 for the development of deposits of strategic and critical minerals which would be of value to the United States in time of war.³¹

1916 AND 1940

Despite the progress achieved to date, many observers believe that the present rate of economic mobilization must be greatly accelerated. In the near future we may witness a development similar to that which took place in the period 1916-1918. The Council of National Defense and Advisory Commission which President Wilson appointed in 1916 had to give way in March 1918 to the War Industries Board under Bernard M. Baruch, in whom the President at the same time vested definite, centralized authority.³² Although the United States finally created an efficient economic organization in the last war, the process of mobilization was attended by waste of much money, effort and time. Production on many items of equipment did not really get under way until the last few months of the war. We shipped only 143 75-mm. field guns to France before the armistice. The first completed howitzer

25. Public No. 664, 76th Congress, 3rd Session.

26. Federal Loan Agency, Press Release 36, July 1, 1940.

27. In July 1940 the Reserve Metal Company took over the purchase of manganese and tin from the Procurement Division of the Treasury.

28. *The New York Times*, August 21, 1940.

29. When the Act of June 25, 1940 was approved the RFC still had a borrowing reserve of \$1,000,000,000. A law of September 24, 1940 raised its borrowing authority by another \$1,500,000,000 (Public No. 792, 76th Congress, 3rd Session).

30. Cf. "Strategic Minerals Investigations: Procedure followed by the Bureau of Mines," Bureau of Mines, *Information Circular* 7097, July 1940; and address by J. W. Finch, Director of Bureau of Mines, before the Annual Metal Mining Convention, Western Division, of the American Mining Congress, August 28-31, 1939.

31. Public No. 784, 76th Congress, 3rd Session.

32. Cf. G. B. Clarkson, *Industrial America in the World War* (Boston, Houghton Mifflin, 1923), pp. 48-51; also J. L. Tyson, "The War Industries Board 1917-18," *Fortune*, September 1940.

was not delivered until July 1918, and none of the 23,405 tanks ordered could be finished in time for use in training or combat. Although we managed to turn out 12,656 planes by the end of 1918, only 667 reached the front in France before the war stopped.³³ Our World War experience demonstrates that speed is the essence of preparation for war.

In several respects conditions today are different from those existing in 1916-17. The experience acquired from the last war and the continuous study of industrial mobilization by the War Department have facilitated the work of the Defense Commission. The administrative machinery of the federal government today is far more comprehensive than in those years. Our economy has also become more diversified, thus minimizing the need for drastic intervention to remove bottlenecks. On the other hand, the economic depression has caused a pronounced deterioration in labor skills and capital equipment. The multiplicity of federal agencies may also call for a greater degree of effective coordination. And if speed is required, the National Defense Advisory Commission may soon have to give way to a body provided with a full-time head, entrusted with clearly defined responsibility and the power to make and enforce decisions.

The first step in this direction was taken on October 22, 1940 when the President delegated to the Priorities Board and the Administrator of Priorities of the Defense Commission his power to insist that performance of Army and Navy contracts take precedence over deliveries for private account or export.³⁴ This does not mean, however, that the Commission will suddenly begin to use compul-

sion, or depart drastically from its previous policy of seeking to superimpose production for defense on the existing volume of business with minimum disturbance to ordinary civilian requirements. Hitherto, the Commission has relied primarily on the voluntary cooperation of private enterprise. It has refrained from recommending price controls or mandatory priorities which might interfere with normal business. It has also disavowed any intention to abrogate existing restrictions on hours of work or to impose curbs on wages. This course of action, which was apparently taken on instructions from the President, has so far been facilitated by two factors. First of all, our defense program is still in the preliminary stage of development where it does not involve a heavy burden on the country's production facilities. Second, we have been for many years in a chronic economic depression, so that we can experience a considerable rise in output without overtaxing available resources. Each of these factors is likely to be temporary. As industry swings into large-scale production for defense, probably sometime in the next year, points of strain will doubtless appear. At the same time, the expenditure of billions of dollars for defense will involve substantial re-employment, thereby stimulating the demand for civilian goods. In the end—and particularly in case of war—defense will absorb such a large part of productive capacity that it must have assured priority at the expense of civilian consumption. As Walter Lippmann has pointed out, defense must really become the dominant factor in our economy if we are in earnest about arming for war.³⁵ In that event the Commission must be prepared for progressively more drastic interference with normal business.

33. These examples are culled from L. P. Ayres, *The Progress of Preparedness* (Cleveland, Cleveland Trust Company, 1940), pp. 5-13.

34. *The New York Times*, October 23, 1940.

35. Cf. his column, "The Evolution of the Defense Program," *New York Herald Tribune*, September 19, 1940.

The November 15 issue of FOREIGN POLICY REPORTS will be DEFENSE ECONOMY OF THE U. S.: AN INVENTORY OF RAW MATERIALS

Statement of the Ownership, Management, Circulation, Etc., Required by the Acts of Congress of August 24, 1912, and March 3, 1933, of

FOREIGN POLICY REPORTS

Published twice a month at New York, N. Y. for October 1, 1940. State of New York, County of New York, ss:

Before me, a Notary Public in and for the State and county aforesaid, personally appeared Vera Micheles Dean, who, having been duly sworn according to law, deposes and says that she is the Editor of the Foreign Policy Reports, and that the following, is, to the best of her knowledge and belief, a true statement of the ownership, management (and if a daily paper, the circulation), etc., of the aforesaid publication for the date shown in the above caption, required by the Act of August 24, 1912, as amended by the Act of March 3, 1933, embodied in section 537, Postal Laws and Regulations, printed on the reverse of this form, to wit:

1. That the names and addresses of the publisher, editor, managing editor, and business managers, are:

Publisher—Foreign Policy Association, Incorporated, 22 East 38th Street, N. Y., N. Y.

Editor—Vera Micheles Dean, 22 East 38th St., N. Y., N. Y.

Managing Editor—None.

Business Managers—None.

2. That the owner is:

Foreign Policy Association, Incorporated, the principal officers of which are: Frank Ross McCoy, President; Dorothy F. Leet, Secretary; both of 22 East 38th Street, N. Y., N. Y.; and William A.

Eldridge, Treasurer, 70 Broadway, N. Y., N. Y.

3. That the known bondholders, mortgagees, and other security holders owning or holding 1 per cent or more of total amount of bonds, mortgages, or other securities are:

None.

4. That the two paragraphs next above, giving the names of the owners, stockholders, and security holders, if any, contain not only the list of stockholders and security holders as they appear upon the books of the company but also, in cases where the stockholder or security holder appears upon the books of the company as trustee or in any other fiduciary relation, the name of the person or corporation for whom such trustee is acting, is given; also that the said two paragraphs contain statements embracing affiant's full knowledge and belief as to the circumstances and conditions under which stockholders and security holders who do not appear upon the books of the company as trustees, hold stock and securities in a capacity other than that of a bona fide owner; and this affiant has no reason to believe that any other person, association, or corporation has any interest direct or indirect in the said stock, bonds, or other securities than as so stated by her.

FOREIGN POLICY ASSOCIATION, Incorporated

By VERA MICHELES DEAN, Editor

Sworn to and subscribed before me this 27th day of September, 1940.

CAROLYN E. MARTIN, Notary Public, New York County, New York. County Clerk's No. 329. (My commission expires March 30, 1941.)